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October 3, 2011

Bharti Airtel

Concerns due to currency volatility

The INR has depreciated strongly against the USD by 11% over the past quarter, from 44.6 to 49.6. This steep movement in INR over a month's time has led to companies, such as Bharti Airtel (Bharti), which have a high exposure to foreign currency in the form of long-term loans, put a risk their profitability. Thus, to gauge the impact of depreciated INR, we have done an impact analysis.

As of 1QFY2012, Bharti had foreign currency denominated loans worth ~US$11.8bn (including the current liabilities part of borrowing). Assuming USD/INR rate to remain at ₹50, we estimate the gross loan will increase by ~₹6500cr due to INR depreciation against USD from ₹44.6 to ₹50. If the INR remains depreciated at USD/INR of ₹50, then the interest payment outgo for the company would increase from 3QFY2012 (not for 2QFY2012, as still the average for 2QFY2012 settles at 45.8 vs. 44.7 in 1QFY2012). This can have a possible P&L impact; however, the MTM impact of the sudden INR depreciation would be captured in the borrowings and the foreign currency translation reserve, which stood at ₹1,402cr as on 1QFY2012, on the balance sheet.

However, we still await some consolidation in INR, as the fortnight movement has been steep. Considering USD/INR rate at ₹50, the FY2013E gross debt will increase to ₹55,903 from ₹49,484 earlier (assuming USD/INR rate at ₹45). This will lead to higher interest outgo, resulting in lower earnings. The possible negative impact on Bharti's PBT and EPS for FY2012 and FY2013 is expected to be 1.1% and 2.7%, respectively. Valuing it on EV/EBITDA basis (considering the USD/INR rate at ₹50), the target price reduces by 4.0% to ₹413 from ₹430 currently due to increase in FY2013E gross debt level. **This would result in per share impact of ₹17. However, at the CMP, the stock still warrants an opportunity to Accumulate.**

Exhibit 1: Key financials (Assuming USD/INR rate at ₹45)

Particulars	FY2012E	FY2013E
Net revenue	70,838	82,218
EBITDA	23,870	29,522
Interest	3,252	2,880
PBT	1,978	3,126
PAT	5,879	9,397
EPS (₹)	15.5	24.7
Gross debt (EoP)	58,684	49,484

Source: Company, Angel Research

Exhibit 2: Key financials (Assuming USD/INR rate at ₹50)

Particulars	FY2012E	FY2013E
Net revenue	70,838	82,218
EBITDA	23,870	29,522
Interest	3,335	3,214
PBT	1,958	3,042
PAT	5,815	9,147
EPS (₹)	15.3	24.1
Gross debt (EoP)	65,103	55,903

Source: Company, Angel Research

ACCUMULATE

CMP	₹381
Target Price	₹430
Investment Period	12 Months

Stock Info	
Sector	Telecom
Market Cap (₹ cr)	144,518
Beta	0.8
52 Week High / Low	445/304
Avg. Daily Volume	506,025
Face Value (₹)	5
BSE Sensex	16,151
Nifty	5,405
Reuters Code	BRTI.BO
Bloomberg Code	BHARTI.IN

Shareholding Pattern (%)	
Promoters	68.3
MF / Banks / Indian FIs	8.5
FII / NRIs / OCBs	17.6
Indian Public / Others	5.7

Abs. (%)	3m	1yr	3yr
Sensex	(13.9)	(21.0)	28.9
Bharti Airtel	(0.8)	4.2	0.6

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Exhibit 3: Valuation (USD/INR rate @ ₹45)

(₹ cr)	FY2013E
EBITDA	29,522
Target EV/EBITDA (x)	7.0
Target EV	206,655
Debt	49,484
Cash	6,206
Target mcap	163,377
Target price (₹)	**430**

Source: Company, Angel Research

Exhibit 4: Valuation (USD/INR rate @ ₹50)

(₹ cr)	FY2013E
EBITDA	29,522
Target EV/EBITDA (x)	7.0
Target EV	206,655
Debt	55,903
Cash	5,955
Target mcap	156,707
Target price (₹)	**413**

Source: Company, Angel Research

Exhibit 5: Recommendation summary

Company	Reco	CMP (₹)	Tgt Price (₹)	Upside (%)	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR	FY2013E RoCE (%)	FY2013E RoE (%)
Bharti Airtel	Accumulate	381	430	13.0	2.3	15.4	24.7	12.9	14.9
Idea Cellular	Neutral	98	-	-	2.3	26.6	16.4	10.5	8.5
RCom	Neutral	72	-	-	0.5	11.3	(0.4)	4.2	3.1

Source: Company, Angel Research

Profit and loss account (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	36,962	41,847	59,467	70,838	82,218
Roaming and access charges	5,290	4,481	7,499	9,377	10,525
% of net sales	*14.3*	*10.7*	*12.6*	*13.2*	*12.8*
Network operating exp.	5,936	8,912	12,993	15,823	17,443
% of net sales	*16.1*	*21.3*	*21.8*	*22.3*	*21.2*
License fee	3,827	4,088	5,166	6,113	7,072
% of net sales	*10.4*	*9.8*	*8.7*	*8.6*	*8.6*
Other expenses	6,596	7,513	13,774	15,654	17,655
Total expenditure	21,649	24,993	39,432	46,968	52,696
% of net sales	*58.6*	*59.7*	*66.3*	*66.3*	*64.1*
EBITDA	15,313	16,854	20,035	23,870	29,522
% of net sales	*41.4*	*40.3*	*33.7*	*33.7*	*35.9*
Dep. and amortisation	4,758	6,284	10,206	12,825	14,175
Non operating expenses	22	(18)	111	-	-
EBIT	10,533	10,589	9,719	11,045	15,347
Interest charges	2,762	18	2,182	3,252	2,880
Other income, net	1,753	70	136	27	36
Profit before tax	9,523	10,640	7,673	7,820	12,503
Provision for tax	662	1,345	1,778	1,978	3,126
% of PBT	*6.9*	*12.6*	*23.2*	*25.3*	*25.0*
PAT	8,862	9,295	5,894	5,842	9,377
Share in earnings of associate	(71)	-	-	-	-
Minority interest	176	187	(148)	(37)	(20)
Adj. PAT	8,615	9,108	6,042	5,879	9,397
EPS (₹)	22.7	24.0	15.9	15.5	24.7

Balance sheet (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Liabilities					
Share capital	1,898	1,899	1,899	1,899	1,899
Reserves and surplus	28,496	40,295	46,868	52,302	61,255
Tot. shareholders' funds	30,394	42,194	48,767	54,201	63,154
Minority interest	1,070	2,529	2,856	2,791	2,791
Secured loans	5,399	8,147	53,234	43,015	36,272
Unsecured loans	6,481	2,042	8,437	15,669	13,212
Total debt	11,880	10,190	61,671	58,684	49,484
Other liabilities	1,816	5,300	4,665	4,046	3,253
Total liabilities	45,161	60,212	117,959	119,721	118,681
Assets					
Gross block	54,981	69,725	96,810	110,310	122,310
Acc. depreciation	14,067	21,462	31,668	44,493	58,668
Net block	40,914	48,263	65,142	65,817	63,642
Goodwill	4,036	5,989	63,732	63,358	63,000
Oth. non-current assets	-	1,825	1,918	2,200	2,900
Investments	3,805	5,236	622	1,278	1,278
Inventories	96	48	214	250	250
Sundry debtors	2,853	3,571	5,493	6,599	7,659
Cash and equivalents	1,115	2,532	958	2,766	4,928
Other current asst	6,552	2,381	3,921	5,421	6,921
Total current assets	10,615	8,532	10,585	15,036	19,758
Less: - current liab.	15,155	10,841	28,430	32,170	36,093
Less:- provisions	79	41	118	138	153
Net current assets	(4,619)	(2,350)	(17,962)	(17,272)	(16,488)
Net deferred tax	-	1,249	4,506	4,340	4,350
Miscellaneous exp.	1,024	-	-	-	-
Total assets	45,161	60,212	117,959	119,721	118,681

Cash flow statement (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Pretax profit from operations	7,771	10,571	7,536	7,793	12,467
Depreciation	4,758	6,284	10,206	12,825	14,175
Expenses (deferred)/written off	-	-	-	-	-
Pre tax cash from operations	12,529	16,854	17,742	20,618	26,642
Other income/prior period ad	1,753	70	136	27	36
Net cash from operations	14,282	16,924	17,879	20,645	26,678
Tax	(662)	(1,345)	(1,778)	(1,978)	(3,126)
Cash profits	**13,620**	**15,584**	**16,105**	**18,667**	**23,552**
(Inc)/Dec in					
Current assets	(3,609)	3,501	(3,628)	(2,642)	(2,560)
Current liabilities	1,755	(4,352)	17,666	3,760	3,939
Net trade working capital	(1,854)	(851)	14,038	1,118	1,378
Cash flow from oper. actv.	**11,766**	**14,733**	**30,143**	**19,785**	**24,931**
(Inc)/Dec in fixed assets	(14,331)	(13,633)	(27,085)	(13,500)	(12,000)
(Inc)/Dec in intangibles	(12)	(1,953)	(57,743)	373	358
(Inc)/Dec in investments	1,014	(1,431)	4,614	(655)	-
(Inc)/Dec in net dfr. tax asset	-	(1,249)	(3,257)	166	(10)
(Inc)/Dec in minority interest	215	1,458	328	(66)	-
(Inc)/Dec in oth. non-curr. ast.	(514)	(801)	(94)	(282)	(700)
Cash flow from investing actv.	**(13,628)**	**(17,608)**	**(83,237)**	**(13,963)**	**(12,352)**
Inc/(Dec) in debt	2,174	(1,690)	51,481	(2,987)	(9,200)
Inc/(Dec) in equity/premium	272	2,944	1,117	37	20
Others	297	3,484	(635)	(619)	(793)
Dividends	444	444	444	444	444
Cash flow from financing actv.	**2,299**	**4,293**	**51,519**	**(4,014)**	**(10,417)**
Cash generated/(utilised)	**437**	**1,418**	**(1,575)**	**1,809**	**2,162**
Cash at start of the year	678	1,115	2,532	958	2,766
Cash at end of the year	1,115	2,532	958	2,766	4,928

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)					
P/E (on FDEPS)	16.8	15.9	23.9	24.6	15.4
P/CEPS	10.8	9.4	8.9	7.7	6.1
P/BVPS	4.7	3.4	3.0	2.7	2.3
Dividend yield	0.3	0.3	0.3	0.3	0.3
EV/Sales	4.1	3.5	3.4	2.8	2.3
EV/EBITDA	9.9	8.7	10.2	8.3	6.4
EV/Total assets	3.4	2.4	1.7	1.7	1.6
Per share data (₹)					
EPS	22.7	24.0	15.9	15.5	24.7
Cash EPS	35.3	40.6	42.8	49.3	62.1
Dividend	1.0	1.0	1.0	1.0	1.0
Book value	80.1	111.2	128.5	142.8	166.3
DuPont analysis					
Tax retention ratio (PAT/PBT)	0.9	0.9	0.8	0.8	0.8
Cost of debt (PBT/EBIT)	0.9	1.0	0.8	0.7	0.8
EBIT margin (EBIT/Sales)	0.3	0.3	0.2	0.2	0.2
Asset turnover ratio (Sales/Assets)	0.8	0.7	0.5	0.6	0.7
Leverage ratio (Assets/Equity)	1.5	1.4	2.4	2.2	1.9
Operating ROE	28.3	21.6	12.4	10.8	14.9
Return ratios (%)					
RoCE (pre-tax)	23.3	17.6	8.2	9.2	12.9
Angel RoIC	29.1	22.8	18.5	21.1	31.0
RoE	28.3	21.6	12.4	10.8	14.9
Turnover ratios (x)					
Asset turnover (fixed assets)	0.9	0.8	0.7	0.6	0.7
Receivables days	28	28	34	34	34
Payable days	256	158	263	250	250

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Disclosure of Interest Statement	Bharti Airtel
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	